

# Practice Update

Please read this update  
and contact this office  
if you have any queries

JUNE 2015

## ATO warns about aggressive phone scams

The ATO is again warning the public to be aware of a phone scam that is circulating, where fraudsters are intimidating people into paying a fake tax debt over the phone.

The aggressive scam attempts to force people to pay a fake tax debt immediately by threatening arrest if they don't comply.

*Editor: If any client receives a call from the ATO we recommend that they should ask for the caller's name and either call our office with the details or phone them back through the ATO's switchboard on 13 28 69.*

## Holiday homes that taxpayers rent out

*Editor: The ATO has updated its information guide on claiming deductions on holiday homes. This may have something to do with its stated intention to increase its audit focus on holiday homes that are rented out.*

*Clients with such holiday homes may want to take notice of the following.*

### Claiming deductions on holiday homes

The principles that apply to a rental property also apply to a holiday home if it is rented out.

If a taxpayer rents out their holiday home, they can claim expenses for the property based on the proportion of the income year it was rented out or was genuinely available for rent.

They must apportion their expenses if the property is used:

- for private purposes for part of the year – such as when they use it themselves, or allow their family, relatives or friends to use it free of charge; and
- by family or friends for part of the year and they are charged *less than* market rent.

If their holiday home is rented out to family, relatives or friends below market rates, their deductions are limited to the amount of rent received for that period.

### Tax Tip: Keeping records for CGT purposes

*Editor: Clients who own holiday houses should be aware that they need to keep records of their expenses.*

*If they make a capital gain when they sell the property, the proportion of expenses (interest, insurance, maintenance costs and council rates) they could not claim a deduction for are taken into account in reducing the amount of their capital gain.*

## Early access to super for people with terminal illness

The Assistant Treasurer has announced that, from 1 July 2015, the government will amend the provision for accessing superannuation for people suffering a terminal illness.

Under the current provision for early access to super, a person with a terminal illness is required to obtain a certification from medical specialists that they have less than 12 months to live.

The relevant regulations will be amended to change the life expectancy period from 12 months to 24 months.

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### **Consider buying house in spouses name if used partly for business**

Where an individual is using part of their home as a place of business, this will affect the application of the CGT main residence exemption when the home is eventually sold.

That is, the main residence exemption is effectively reduced (i.e., only a partial exemption applies).

However, if that taxpayer does not have an ownership interest in the dwelling (e.g., the dwelling is solely owned by the taxpayer's spouse), the CGT main residence exemption is not reduced.

This is because the spouse would not have been able to claim a deduction for interest incurred on any borrowings to buy their interest in the house (as they do not use the dwelling for income-producing purposes, the taxpayer does).

Therefore, where a taxpayer uses (or plans to use) part of their home as a sole base of operations (or as a place of business), the dwelling could still retain the full main residence exemption when it is sold if it is owned solely in the name of the taxpayer's spouse (or even some other family member, where appropriate).

However, in these circumstances, interest expenses incurred on moneys borrowed by the spouse (or other family member) to acquire the property (or an ownership interest in it) are basically not deductible, because the spouse (or other family member) is not using the property themselves for income-earning purposes.

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### **The sharing economy**

*Editor: The ATO has issued an information guide titled the 'Sharing economy and tax'. It states that the 'sharing economy' is a new way of connecting buyers ('users') and sellers ('providers') for economic activity.*

Sharing economy arrangements are generally booked through a facilitator using a website or app.

Common examples of some sharing economy services include:

- ◆ renting out or letting a room or other property for accommodation;

- ◆ renting out or letting car parking space;
- ◆ providing odd jobs, errands, deliveries or more skilled services on an ad hoc basis; and
- ◆ using a car to transport members of the public for a fare.

The ATO says that tax laws which apply to activities conducted in a conventional manner apply in the same way to activities conducted in the sharing economy.

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### **Tax help for people affected by severe weather in NSW**

The ATO has advised that, if taxpayers have been affected by the recent severe weather throughout NSW, the ATO understands that dealing with their tax affairs is probably the last thing on their mind.

Taxpayers' tax obligations can be put to one side until they have dealt with the immediate effects of the disaster – whether they are affected themselves, or are helping those affected.

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### **ATO's new appeals division – the "RDR"**

In a recent speech, an ATO Second Commissioner spoke about the ATO's new Review and Dispute Resolution (RDR) area which is being set up as a separate division to review objections and appeals.

He stated that the ATO has accepted that disputes should be managed in a division separate from audit.

He said that "From 1 July, all objections will come under the purview of RDR, which reports to him, and is separate from their Compliance and Tax Counsel areas".

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### **FBT: Car parking threshold**

The car parking threshold for the FBT year commencing on 1 April 2015 is \$8.37. This replaces the amount of \$8.26 that applied in the previous year commencing 1 April 2014.

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### **Luxury car tax threshold**

The luxury car tax threshold for the 2015/16 financial year is \$63,184. The fuel-efficient car limit for the 2015/16 financial year is \$75,375.

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Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

# 2014/15 Individual Tax Return Checklist

## Your Checklist

- Claims for deductions ✓
- Receipts for deductions ✓
- Car claims and log books ✓

Please review the information below and contact our office if you need assistance.

## Tax saving strategies prior to 1 July 2015

A good strategy to reduce tax payable is normally to accelerate any income tax deductions into the current income year, which will reduce overall taxable income in the current year.

The tax rates for resident (adult) individual taxpayers for the **2014/15** income year are as follows:

Taxable Income threshold	Tax payable <sup>1</sup>
0 – \$18,200	Nil
\$18,201 – \$37,000	19% of excess over \$18,200
\$37,001 – \$80,000	\$3,572 + 32.5% of excess over \$37,000
\$80,001 – \$180,000	\$17,547 + 37% of excess over \$80,000
\$180,001 and over	\$54,547 + 47% <sup>2</sup> of excess over \$180,000

1. The Medicare levy of 2% generally applies in addition to these rates.

2. This rate includes the 2% 'Temporary Budget Repair Levy' which applies from 1 July 2014 to 30 June 2017 on that part of a person's taxable income that exceeds \$180,000.

### Common work-related claims made by individuals

The following outlines common types of deductible expenses claimed by individual taxpayers, such as employees and rental property owners, plus some strategies that can be adopted to increase deductions for the 2014/15 income year.

#### 1. Depreciable plant, etc, costing \$300 or less

Salary and wage earners and rental property owners will generally be entitled to an immediate deduction if certain income-producing assets costing \$300 or less are purchased before 1 July 2015.

Some purchases you may consider include:

- books and trade journals;
- briefcases/luggage or suitcases;

- calculators, electronic organisers;
- electronic tablets;
- software;
- stationery;
- tools of trade.

#### 2. Clothing expenses

Purchase or pay for work-related clothing expenses prior to the end of the income year, such as:

- compulsory (or non-compulsory and registered) uniforms, and occupation specific and protective clothing;
- other expenses associated with such work-related clothing, such as dry cleaning, laundry and repair expenses.

### **3. Self education expenses**

Consider prepaying the following self education items before the end of the income year:

- ◆ course fees (but not HECS-HELP fees), student union fees, and tutorial fees;
- ◆ interest on borrowings used to pay for any deductible self education expenses.

Also bring forward purchases of stationery and text books (i.e., those which are not required to be depreciated).

### **4. Other work-related expenses**

Employees can prepay any of the following expenses prior to 1 July 2015:

- union fees;
- subscriptions to trade, professional or business associations;
- magazine and newspaper subscriptions;
- seminars and conferences;
- income protection insurance (excluding death and total/permanent disability).

*Note: When prepaying any of the expenses above before 1 July 2015, ensure that any services being paid for are to be provided within a 12 month period that ends before 1 July 2016. Otherwise, the deductions must generally be claimed over the period of the prepayment.*

## **Information Required**

We will need you to bring information to assist us in preparing your income tax return.

Please check the following and bring along payment summaries, statements, accounts, receipts, etc., to help us prepare the return.

#### **Income/Receipts:**

- payment summaries for salary and wages;
- lump sum and termination payments;
- government pensions and allowances;
- other pensions and/or annuities;
- allowances (e.g., entertainment, car, tools);
- interest, rent and dividends;
- distributions from partnerships or trusts;
- details of any assets sold that were either used for income earning purposes or which may be caught by capital gains tax (CGT).

#### **Deductions (in addition to those mentioned above):**

- ◆ award transport allowance claims;
- ◆ bank and government charges on deposits of income, and deductible expenditure;
- ◆ bridge/road tolls (travelling on business);
- ◆ car parking (when travelling on business);
- ◆ conventions, conferences and seminars;
- ◆ depreciation of library, tools, business equipment (incl. portion of home computer);
- ◆ gifts or donations;
- ◆ home office running expenses:
  - cleaning
  - cooling and heating
  - depreciation of office furniture
  - lighting
  - telephone and internet;
- ◆ interest and dividend deductions:
  - account keeping fees
  - ongoing management fees
  - interest on borrowings to acquire shares
  - advice relating to *changing* investments (but *not* setting them up);
- ◆ interest on loans to purchase equipment or income-earning investments;
- ◆ motor vehicle expenses (business/work related);
- ◆ overtime meal allowances;
- ◆ rental property expenses – including:
  - advertising expenses
  - council/water rates
  - insurance
  - interest
  - land tax
  - legal expenses/management fees
  - genuine repairs and maintenance
  - telephone expenses
  - travelling to inspect property;
- ◆ superannuation contributions by sole traders or substantially unsupported taxpayers;
- ◆ sun protection items;
- ◆ tax agent fees;
- ◆ telephone expenses (business);
- ◆ tools of trade.

# 2014/15 Year-end Checklist for Business

Many of our business clients like to review their tax position at the end of the income year and evaluate any year-end strategies that may be available to legitimately reduce their tax. Traditionally, year-end tax planning for small businesses is based around two simple concepts – i.e., accelerating business deductions and deferring income.

However, Small Business Entities ('SBEs') have greater access to year-end tax planning due to particular concessions that only apply to them. The SBE system replaced the previous Simplified Tax System ('STS') on 1 July 2007. Taxpayers that qualify as an SBE can generally pick and choose which of the concessions they wish to use each year (although see below regarding the simplified depreciation rules). The basic requirement to be eligible for the SBE concessions is that the business taxpayer's annual turnover (including that of some related entities) is less than \$2 million.

The following are a number of areas that may be considered for all business taxpayers.

## Maximising deductions for non-SBE taxpayers

Non-SBE business taxpayers should endeavour to maximise deductions by adopting one or more of the following strategies:

- Prepayment strategies;
- Accelerating expenditure; and
- Accrued expenditure.

### Prepayment strategies – non-SBE

Any part of an expense prepayment relating to the period up to 30 June is generally deductible.

In addition, non-SBE taxpayers may generally claim the following prepayments in full:

- expenditure under \$1,000;
- expenditure made under a 'contract of service' (e.g., salary and wages); or
- expenditure required to be incurred under law.

*Editor: Prepayments can be a little confusing, so before you commit to making a payment please feel free to call us with any queries or assistance if required.*

## Accelerating expenditure – non-SBE

This is where a business taxpayer brings forward the expenditure on regular, on-going deductible items. However, business taxpayers are generally entitled to deductions on an 'incurred basis'.

Therefore, there is generally no requirement for the expense to be paid by 30 June 2015. As long as the expense has genuinely been incurred, it will generally be deductible.

### Checklist

The following may act as a checklist of possible accelerated expenditure:

- Depreciating assets** costing \$100 or less can be written off in the year of purchase. Depreciating assets costing less than \$1,000 can be allocated to a low value pool and depreciated at 18.75% (which is half of the full rate of 37.5%) in their first year regardless of the date of purchase.
- Repairs** – repairs to office premises, equipment, cars or other business items.
- Consumables/spare parts.**
- Client gifts.**
- Donations.**

- Advertising.**
- Fringe benefits** – any benefits to be provided, such as property benefits, could be purchased and provided prior to 1 July 2015.
- Superannuation** – contributions to a complying superannuation fund, to the extent contributions are actually made (i.e., they cannot be accrued but must be paid by 30 June).

### Accrued expenditure – non-SBE

Non-SBE taxpayers (and some SBE taxpayers) are entitled to a deduction for expenses incurred as at 30 June 2015, even if they have not yet been paid.

The following expenses may be accrued:

- ◆ **Salary or wages and bonuses** – the accrued expense for the days that employees have worked but have not been paid as at 30 June 2015.
- ◆ **Interest** – any accrued interest outstanding on a business loan that has not been paid as at 30 June 2015.
- ◆ **Commercial bills** – the discount applicable to the period up to 30 June 2015, where the term of the bill extends past 30 June.
- ◆ **Commissions** – where employees or other external parties are owed commission payments.
- ◆ **Fringe benefits tax** – if an FBT instalment is due for the June 2015 quarter, for example, but not payable until July, it can be accrued and claimed as a tax deduction in the 2015 income year.
- ◆ **Directors' fees** – where a company is definitively committed to the payment of a director's fee as at 30 June 2015, it can be claimed as a tax deduction.

### Maximising deductions for SBE taxpayers

Deductions can be maximised for SBE business taxpayers by **accelerating expenditure** and **prepaying** deductible business expenses. Former STS taxpayers who have continued to use the STS cash method since before 1 July 2005 cannot accrue expenses, but other SBE taxpayers on an accruals basis *can* accrue expenses (see above regarding accruing expenditure).

### Accelerating expenditure – SBE

Former STS taxpayers who have continued to use the STS cash method since before 1 July 2005 and who qualify as an SBE are generally only entitled to deductions if they have **paid** the amount by 30 June.

All SBE taxpayers can choose to write-off depreciable assets costing less than \$1,000 in the year of purchase. Also, assets costing \$1,000 or more are allocated to an SBE general pool and depreciated at 15% (which is half the full rate of 30%) in their first year. Therefore, where appropriate, SBE business taxpayers should consider purchasing/installing these items by 30 June 2015.

*It should be noted that SBE taxpayers choosing to use the SBE depreciation rules are effectively 'locked in' to using those rules for all of their depreciable assets.*

**STOPPRESS:** *It is important to note that proposed changes to the SBE capital allowance regime will impact the 2015 income year. Under the proposals, the small instant asset write-off threshold will be temporarily increased to 'less than \$20,000', for assets acquired and installed ready for use between 7.30 pm (AEST) 12 May 2015 and 30 June 2017. The increased threshold will also be available to SBEs who previously 'opted out' of the SBE capital allowance provisions. On 28 May 2015, the Tax Laws Amendment (Small Business Measures No.2) Bill 2015, was introduced to give effect to this measure.*

### Prepayment strategies – SBE

SBE taxpayers making prepayments before 1 July 2015 can choose to claim a full deduction in the year of payment where they cover a period of no more than 12 months (ending before 1 July 2016). Otherwise, the prepayment rules are the same as for non-SBE taxpayers.

The kinds of expenses that may be prepaid include:

- Rent** on business premises or equipment.
- Lease payments** on business items such as cars and office equipment.
- Interest** – check with your financier to determine if it's possible to prepay up to 12 months interest in advance.
- Business trips.**
- Training courses** that run on or after 1 July 2015.
- Business subscriptions.**
- Cleaning.**

### Information Required

This is some of the information we will need you to bring to help us prepare your income tax return:

- Stocktake details as at 30 June.
  - Debtors listing (including a list of bad debts written off) as at 30 June. *Note: In order to claim a deduction, the debt must be written off on or before 30 June.*
  - Creditors listing as at 30 June.
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